

BEFORE THE NEBRASKA PUBLIC SERVICE COMMISSION

In the Matter of the Commission, on its) Application No. NUSF-50
own motion, to make adjustments to the)
universal service fund mechanism)
established in NUSF-26.)

Comments of The Rural Independent Companies

I. Introduction

The Rural Independent Companies (the “Companies”)¹ submit these comments in the above-referenced docket. The Companies appreciate the opportunity to submit comments in this matter responsive to the December 6, 2005, Order Opening Docket and Seeking Comment (the “Order”) of the Nebraska Public Service Commission (the “Commission”).

The Order solicits comments on the Commission's proposals for some limited adjustments to the permanent Nebraska Universal Service Fund (“NUSF”) mechanism. Generally, the Commission seeks comment on two methods to shorten the lag between the period for which earnings are reported and NUSF distributions. One alternative the Commission proposes is to allow carriers the option of filing NUSF EARN forms on a quarterly basis.² The second alternative is to move the model adjustment and distribution period from a calendar year to a fiscal year.³ The Companies support shortening the lag between the period for which earnings are reported and NUSF distributions, as indicated

¹ Arlington Telephone Company, The Blair Telephone Company, Cambridge Telephone Company, Clarks Telecommunications Co., Consolidated Telco Inc., Consolidated Telcom, Inc., Consolidated Telephone Company, Eastern Nebraska Telephone Company, Great Plains Communications, Inc., Hartington Telecommunications Co., Inc, Hershey Cooperative Telephone Co., K & M Telephone Company, Inc., The Nebraska Central Telephone Company, Northeast Nebraska Telephone Company, Rock County Telephone Company, Stanton Telecom Inc., and Three River Telco

² See Order at p. 1.

³ Ibid.

by their suggestions in Application No. NUSF-26.⁴ Shortening the lag is desirable because it would reduce the gap between the end of the period that is used to compute earnings, and the beginning of the NUSF support year, which would more closely match the amount of overearnings with the time period in which the overearnings are distributed to other carriers through the over-earnings redistribution (“OER”) mechanism, and may provide a greater incentive for companies to invest in their networks because these costs will be recovered sooner through any additional NUSF support that the company would receive.

II. The Companies Generally Support The Commission’s Proposals To Make Limited Adjustments To The Permanent Mechanism Regarding The Reporting Of Earnings And The Computation Of NUSF Distribution Amounts.

The Companies support moving the model adjustment and distribution period from a calendar year to a fiscal year as proposed by the Commission. The Commission indicates that it would make its model adjustments in July rather than January of each year.⁵ Currently, there is a twelve-month difference between the end of the period that is used to compute earnings and the commencement of the NUSF support year. For example, the NUSF support year that started on January 1, 2006, utilized NUSF EARN form data for calendar year 2004. Under the Commission’s proposal, the time interval from the end of the period that is used to compute earnings to the beginning of the NUSF support year would decrease from twelve months to six months.

⁴ See *The Commission, on its Own Motion, Seeking to Establish a Long-Term Universal Service Funding Mechanism*, Application No. NUSF-26, Post-Hearing Brief of the Rural Independent Companies (filed Sept. 30, 2004) at pp. 8-9.

⁵ See *Order* at p. 2.

While the Commission has framed moving the model adjustment and distribution period from a calendar year to a fiscal year and quarterly filing of NUSF EARN form data as two alternative options, the Companies urge the Commission to implement aspects from both of these options. The filing of NUSF EARN form data in a manner which allows carriers that make investments in their networks to more quickly receive NUSF support amounts for which they may have been ineligible due to overearnings, would further enhance the incentives to invest created by moving the model adjustment and distribution period from a calendar year to a fiscal year. The Companies recommend that the filing of NUSF EARN form data in a more timely manner should be implemented in addition to moving the model adjustment and distribution period. The filing of NUSF EARN forms on a quarterly basis, as suggested by the Commission, would further shorten the lag between the reported earnings period and NUSF distributions.

The Companies believe that the filing of NUSF EARN forms on a quarterly basis should be optional. A mandatory requirement to file NUSF EARN forms on a quarterly basis would impose additional reporting burdens on all carriers, some of which may not have significant changes in investments or operating expenses such that quarterly reporting would result in appreciable changes in their NUSF support distributions. Furthermore, many carriers do not audit quarterly financial information; rather, annual audits are performed. Such carriers may not wish to file quarterly earnings reports without subjecting their quarterly reports to additional scrutiny such as an audit, which would also result in additional expense for the carriers. Also, for cost companies, the

quarterly earnings reports would have to be “trued-up” once the annual cost study is finalized.

The Companies believe that a preferable alternative to quarterly reporting of earnings may be to allow optional filing of a pro forma or projected earnings report. Such a report would be filed annually instead of quarterly, reducing the reporting burden for carriers. Many carriers project financial data for use by the National Exchange Carriers Association (“NECA”) and the Universal Service Administrative Company (“USAC”). Therefore, allowing for annual reporting of pro forma earnings data would be less burdensome than quarterly reporting. Furthermore, the reporting of pro forma earnings data would allow the Commission to compute adjustments to the SAM distribution mechanism only once a year instead of four times a year. A pro forma earnings report would allow carriers to account for increased investment or operating expenses sooner than the use of historical earnings forms or quarterly reporting of earnings. Allowing the use of pro forma earnings reports would require the Commission to “true up” NUSF distribution amounts to actual historical data to account for any discrepancies between pro forma earnings and actual historical earnings. A “true up” would not change the NUSF distribution mechanism in any fashion. It would simply adjust NUSF distributions for any differences between forecasted and actual earnings.

The Commission seeks comment on whether the SAM distribution mechanism would remain predictable pursuant to Neb. Rev. Stat. § 86-323(5) (2004 Cum. Supp.) if it instituted a quarterly earnings reporting requirement for carriers receiving NUSF support.⁶ The Companies believe that instituting quarterly earnings reporting would not

⁶ See *Order* at p. 1.

affect the predictability of NUSF support. Quarterly reporting of earnings and the computation of NUSF distribution amounts for four quarters instead of once a year would only impact the amount of overearnings available for OER. Quarterly reporting of earnings would not affect the base amount of support determined through the SAM mechanism that a carrier is eligible to receive. The Commission has observed that OER does not cause a carrier to face a reduction in its baseline support; rather, the OER has the effect of increasing support due to the overearnings of other carriers.⁷ Carriers can predict the minimum amount of support to be received, and they can plan based on such projections.⁸ Therefore, the Companies believe that quarterly reporting of earnings would not affect the predictability of NUSF support.

III. Conclusion

The Companies urge the Commission to adopt both methods to shorten the lag between the period for which earnings are reported and NUSF distributions on which it seeks comment. The filing of NUSF EARN form data in a manner which allows carriers that make investments in their networks to more quickly receive NUSF support amounts for which they may have been ineligible due to overearnings, would further enhance the incentives to invest created by moving the model adjustment and distribution period from a calendar year to a fiscal year.

The Companies also suggest that the Commission consider the filing of pro forma or projected NUSF EARN forms on an annual basis instead of quarterly reporting of earnings. Annual pro forma reporting of earnings would reduce the reporting burden for

⁷ See *The Commission, on its Own Motion, Seeking to Establish a Long-Term Universal Service Funding Mechanism*, Application No. NUSF-26, Findings and Conclusions (entered Nov. 3, 2004) at ¶ 12.

⁸ *Ibid.*

carriers relative to quarterly reporting of earnings, and would allow the Commission to compute adjustments to the SAM distribution mechanism only once a year instead of four times a year.

The Companies also suggest that the Commission consider the filing of pro forma or projected NUSF EARN forms on an annual basis instead of quarterly reporting of earnings. Annual pro forma reporting of earnings would reduce the reporting burden for carriers relative to quarterly reporting of earnings, and would allow the Commission to compute adjustments to the SAM distribution mechanism only once a year instead of four times a year.

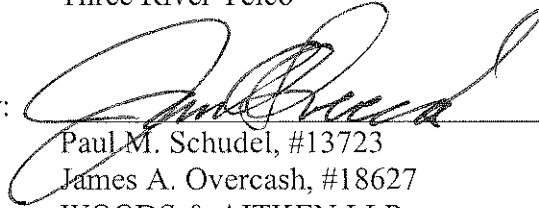
Finally, the Companies believe that quarterly reporting of earnings would not affect the predictability of NUSF support, as baseline support distribution amounts would be unaffected by quarterly reporting.

Dated: January 10, 2006.

Respectfully submitted,
"THE RURAL INDEPENDENT
COMPANIES":

Arlington Telephone Company,
The Blair Telephone Company,
Cambridge Telephone Company,
Clarks Telecommunications Co.,
Consolidated Telco Inc.,
Consolidated Telcom, Inc.,
Consolidated Telephone Company,
Eastern Nebraska Telephone Company,
Great Plains Communications, Inc.,
Hartington Telecommunications Co., Inc.,
Hershey Cooperative Telephone Co.,
K & M Telephone Company, Inc.,
The Nebraska Central Telephone Company,
Northeast Nebraska Telephone Company,
Rock County Telephone Company,
Stanton Telecom Inc., and
Three River Telco

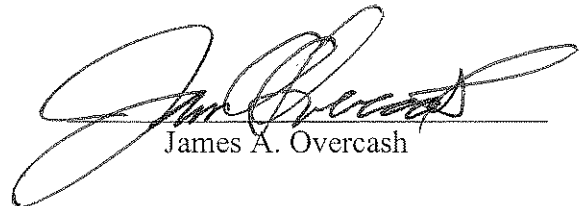
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CERTIFICATE OF SERVICE

I hereby certify that on the 10th day of January 2006, the original and five (5) paper copies, together with an electronic copy, of the foregoing Comments were served upon Andy S. Pollock, Executive Director of the Commission, by hand-delivery.



James A. Overcash